

ACTION MEMO

February 12, 2014

FOR: Donjette L. Gilmore

FROM: Stephanie N. Davis

SUBJECT: High Dollar Improper Payments Reports Quarter 4, Fiscal Year 2013

- Suspense: February 17, 2014.
- The Memorandum at TAB A to the Department of Defense Office of Inspector General serves as cover to report at TAB B and data at TAB C.
- Reports for Quarter 1, 2, and 3 are completed and will be retained on file.
- When Quarter 4's report is posted to the Comptroller's public website, all prior report postings will be removed, leaving just the most report online.
- RECOMMENDATION: Sign the memo of TAB A.
- COORDINATION: TAB D.

Attachments:

As stated

Prepared by: Stephanie N. Davis, Accounting & Finance Policy, 703-602-0193

Control No. USC000060-14

File No. 304-02.3



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE

1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR DEPARTMENT OF
DEFENSE PAYMENTS AND ACCOUNTING OPERATIONS

SUBJECT: High Dollar Improper Payment Report for Quarter 4, Fiscal Year 2013

Attached for your review is the Quarter 4, Fiscal Year 2013 High Dollar Improper Payment Report for the Department of Defense, assembled from data prepared by the Defense Finance and Accounting Service, U.S. Army Corps of Engineers, and Defense Health Agency. This information will be posted to the Office of the Under Secretary of Defense (Comptroller) public website within 15 days of release to you in accordance with Office of Management and Budget Circular A-123, Appendix C, Part III.

Feel free to contact Ms. Sally Beecroft if you have any questions. She can be reached at sally.c.beecroft.civ@mail.mil or (703) 602-0391.

A handwritten signature in cursive script, reading "Donjette L. Gilmore", is positioned above the printed name and title.

Donjette L. Gilmore
Director, Accounting & Finance Policy

Attachments:

High Dollar Improper Payment Report Q4, FY2013

DoD Quarter 4 Fiscal Year 2013 Report on High Dollar Overpayments to Individuals and Entities

HIGH DOLLAR IMPROPER OVERPAYMENTS TO INDIVIDUALS

DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS)

Military Retired Pay – Prevention and Corrective Action

The Department's control processes to prevent, identify, and reduce overpayments to deceased retirees and annuitants include:

- a. Periodic eligibility notifications,
- b. Early detection data mining efforts and
- c. Partnerships with other Federal and state entities.

The Department takes a proactive approach, routinely comparing retired and annuitant payroll master file databases to:

- a. Social Security Administration "deceased" records (also known as the Death Master File).
- b. Office of Personnel Management deceased files.
- c. Department of Veterans Affairs' cemetery database; and records from individual states with sizable retiree and annuitant populations (e.g., Texas, California, and Florida).

Retirees and annuitants identified as deceased must validate continued eligibility or accounts are suspended.

HIGH DOLLAR IMPROPER OVERPAYMENTS TO ENTITIES

DFAS

DFAS' Quarter 4, Fiscal Year (FY) 2013, overall high dollar improper overpayments for commercial payments totaled \$66.3 million (0.085 percent of \$78.4 billion in commercial payments). For the fourth quarter, FY 2013, there were 176 high dollar DoD overpayments to entities totaling \$66.3 million, with \$64.2 million (96.9 percent) recovered to date. The root causes for overpayments errors were technician input (99 at \$12.8 million), progress payment under recoupment (39 at \$26.5 million) and contractor billing (16 at \$15.0 million). The input errors include: entitlement, duplicate payment, and voucher examination. Progress payment under recoupments generates temporary overpayments. The most prominent contractor errors were over-billings.

Corrective Actions and Strategies

DFAS uses the Business Activity Monitoring (BAM) tool to compare current invoices to historical paid files. The purpose of BAM is to identify, monitor, prevent or reduce transaction errors and duplicate payments which include both over and under payments. BAM identifies potential improper payments before they are disbursed enabling DFAS to prevent an improper payment.

DFAS continues to refine and test BAM logic for improper over and under recoupment progress payments prior to disbursement. In addition to the BAM improvements, DFAS holds continuous training sessions to improve technician skills in handling complex payment instructions.

DFAS also uses its vendor outreach program to educate vendors on the process to handle corrected invoices. DFAS must receive notification to remove the original invoices from the entitlement systems to prevent a duplicate payment.

Recovery Actions and Strategies

DFAS analysis on Quarter 4, FY 2013, three largest overpayments identified the following:

- Bell Helicopter - \$10.7 million overpayment caused by a vendor billing error. DFAS recouped the entire amount. DFAS uses vendor outreach to prevent future occurrences.
- Raytheon Missile Systems Company - \$8.7 million overpayment caused by an untimely issuance of a contract modification. DFAS recouped the entire 8.7million. DFAS conducts periodic discussions within the contracting community to prevent such occurrences.
- Lockheed Martin Corporation - \$6.7 million overpayment caused by a voucher examiner error - no liquidation was taken from the payment. DFAS recouped the entire \$6.7 million. DFAS technician attend monthly training sessions that emphasizes validating information on contract payments prior to disbursement.

DFAS continues to use the Accounts Payable-Accounts Receivable handoff process to recognize and collect improper payments. This process includes: Contract Debt System (CDS) input, demand letter, follow-up actions, debt collection and transfer the Debt Management Office. DFAS' CDS Validation/Reconciliation process ensures the debt is recorded with supporting documentation. This process is on-going and requires all DFAS sites to review every debt before it reaches 120 days old.

DFAS improved erroneous payments collection by replacing the internal offset process with a Centralized Offset Process (COP). The COP process changes include identifying

invoices needing offset at day 60 vice the normal 180 day delinquency, as well as the capability to look across all DFAS sites for potential invoices to offset.

USACE

The USACE Quarter 4, FY 2013, overall improper overpayment percentage for vendor/commercial payments was 0.0002 percent (\$982,000) out of \$5.7 billion disbursed in vendor/commercial payments. For Quarter 4 FY 2013, there were 4 entities with high-dollar overpayments totaling \$982,000 with 100 percent recovered. The root causes for these overpayments were errors in contract input; contractor billing, and voucher examination.

Corrective Actions and Strategies

The USACE pre-payment examination requirement is an administrative review accomplished prior to disbursement. The review ensures the voucher contains the necessary substantiation and documentation for lawful and proper payment. The U.S. Army Corps of Engineers Financial Management System (CEFMS) provides internal system standards that adhere to generally accepted accounting principles (GAAP) as well as process controls and safeguards to monitor and ensure DoD FMR, Volume 5, Chapter 1, paragraph 010302 requirements are met.

The USACE Finance Center (UFC) uses data mining as part of the post-payment and recovery audit processes. The CEFMS application is used by USACE in conjunction with data mining to search and identify potential errors such as duplicate, missing, or suspicious invoices, as well as specific types of reoccurring payments. The use of a data mining tool complements the prepayment safeguards already built into CEFMS. Each day, the prior day's disbursements are loaded into the U.S. Army Corps of Engineers Enterprise Management Information System (CEEMIS) where a reconciliation program is run. This program checks payment based on 10 potential improper payment scenarios.

The USACE randomly samples commercial payments from the CEFMS check register file. This file contains all check/EFT disbursements made by the UFC. The sample size is determined using an estimate of the minimum number of commercial payments expected to be processed in a year (roughly 374,400). The 374,400 universe results in an estimated sample size of 384 and a sampling interval of 975. Post-payment audits are conducted quarterly to identify incorrect payments and procedural weaknesses. The sampling procedure provides for a 95 percent confidence level of plus or minus 2 percentage points

Recovery Actions and Strategies

The USACE conducted detailed root cause analysis on the three largest overpayments for this quarter and identified the following:

- Cadata Corporation – \$787,000 overpayment due to voucher examiner error. The amount paid to the vendor was the full amount remaining on the contract instead of the current amount due. The full \$787,000 overpayment was recouped.
- Environmental Research Group LLC – \$97,000 overpayment due to voucher examiner error. The vendor was overpaid because the previous paid amount was not updated on the ENG93. ENG93 is a checklist, internal to USACE, used to prevent overpayment to vendors. The full \$97,000 overpayment was recouped.
- Global Integrated Security USA Inc. – \$64,000 overpayment due to the contractor billing incorrectly, unaware of duplicate billing. The contractor overbilled on two occasions and two receiving reports were created. The vendor repaid the \$64,000 overpayment.

The USACE continues to use multiple processes to recognize and collect improper payments. The processes ensure that the proper due diligence is performed. The processes include, but are not limited to, initiating a demand letter for collection, collection and transfer of the debt to the Debt Management Office, Treasury Offset Program, and various other follow-up actions.

USACE continues to work with customers to improve the unsolicited refund process through improved identification and classification of the root causes of improper payments. Each voluntary refund is researched to determine the improper payment causes and the appropriate corrective actions.

Department of Health Affairs (DHA)

For Quarter 4, FY 2013, there were two entities with high dollar overpayments totaling \$447,553.35 with \$79,389.13 (17.74 percent) recovered to date. The primary root causes for these overpayments were the result of incorrect pricing for medical procedures and/or equipment; unsupported medical determination for services or supplies which required additional documentation to consider them a TRICARE benefit; duplicate services paid based on patient healthcare claims history; medical necessity review was not evident; and other health insurance payments being omitted or miscalculated; preauthorization requirements not met.

Corrective Actions and Strategies

The DHA, formerly TRICARE Management Activity (TMA), conducts quarterly and semi-annual retrospective contractor compliance reviews using a statistically valid sampling methodology to identify overpayments. The approach samples health care claims with paid amounts between \$100 and \$100,000 and a 100 percent review of all claims with paid amounts in excess of \$100,000 for the Managed Care Support (MCSC), TRICARE Dual Eligible and Fiscal Intermediary Contract (TDEFIC), and TRICARE Overseas Program (TOP) purchased care contracts. In addition, DHA conducts semi-annual contractor compliance reviews for the TRICARE Pharmacy Program (TPharm), and Active Duty Dental Program (ADDP) purchased care contracts. The sampling approach emphasizes dollar amount strata wherein the greatest expenditures have occurred in the respective programs.

DHA's full payment universe compliance review process takes approximately 250 calendar days to complete. The process involves an initial review of claims by an external claims review contractor, a rebuttal period, and a final review determination. This contractually required process must be adhered to by DHA contractors.

For reporting purposes, an "*Entity*" is defined as a DHA Health Care Delivery Contractor that is tasked with operating integrated health care delivery system by providing health, medical, dental, pharmaceutical, and administrative support services to eligible TRICARE beneficiaries. Claim reviews for Entities A thru E are conducted quarterly, while claim reviews for Entities F and G are conducted semi-annually. All periodic reviews are contractually determined.

Recovery Actions and Strategies

DHA's third-party contractors are monetarily incentivized through contractual performance standards to reduce and eliminate improper payments. The fewer improper payment errors, the less money is deducted from their reimbursements. In addition, the TRICARE Operations Manual Chapter 10, Sections 3 and 4, requires contractors to recover overpayments identified in retrospective contractor compliance reviews.